

PureCircle

Consumer
22 September 2017

Getting sweeter

Despite the problems with US Customs and Border Protection (CBP) during H117, PureCircle has reported an encouraging set of FY results. The US CBP issues are fully resolved, and the company has continued its investment programme. The new generation of stevia is being introduced and both taste and calorie-reduction have improved. The innovation pipeline remains strong. The company is well-positioned for FY18 and hopes to regain some of the ground lost due to the US CBP issues.

Continuing to grow

FY17 sales were below FY16 due to the US CBP issues, although growth excluding North America was a healthy 8%. As a reminder, North America accounted for 34% of sales in FY16. The \$42m refinery expansion was completed on schedule and within budget. This will allow the company to meet future increased demand, and the new technology will allow increased efficiency and lower manufacturing costs. Stevia remains an attractive sugar substitute due to being a highly efficient source of sweetness with zero calories. PureCircle's stevia product is also 100% natural.

A diversified business in a unique position

PureCircle is well-diversified both by geography and by product category. Geographic diversification helps to reduce geopolitical and climate risks, while category diversification demonstrates that stevia has moved well beyond the traditional carbonated soft drinks market with which sweeteners have long been associated. Stevia now has a significant presence in other beverages (for example juices, hot beverages), and also in food categories such as dairy, bakery and confectionery. PureCircle is uniquely positioned in the industry through its vertical integration, which spans from plant breeding through to extraction and application. This allows deep expertise regarding stevia, which is backed up with intellectual property, and the company is increasingly looking to become a solutions provider for its customers, by working ever more closely with them on their innovation.

Valuation: Significant share price recovery so far

The share price is up 36% over the last 12 months and +81% ytd, and the shares now trade at consensus FY19e P/E of 40.1x. PureCircle continues to be valued at a premium to the global ingredients peer group given its significant growth prospects. It is on a strong growth trajectory as stevia continues to gain traction as a natural sugar substitute. Volatility is likely to remain a feature while the products become more established. Over the next 12 months, we also expect the company to benefit from a recovery in the US now that the US CBP issue has been resolved.

Consensus estimates

Year end	Revenue (\$m)	PBT (\$m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
06/16	138.6	17.9	8.5	0.0	74.0	N/A
06/17	118.9	7.7	4.2	0.0	151.0	N/A
06/18e	147.3	13.5	6.8	0.0	65.5	N/A
06/19e	175.0	22.4	11.1	0.0	40.1	N/A

Source: Actuals as reported, forecasts from Bloomberg consensus as of 19 September 2017

Price 463.5p
Market cap £807m

\$1=£0.7379

Share price graph



Share details

Code	PURE
Listing	LSE
Shares in issue	173.7m

Business description

PureCircle is the world's largest producer and marketer of high-purity stevia, a plant-based sugar substitute. It is a vertically integrated manufacturer and its business spans plant breeding and harvesting through extraction and application of stevia leaf extract.

Bull

- Stevia remains an attractive sugar substitute. Pipeline is strong.
- Refinancing (post year-end) simplifies debt structure and reduces cost.
- New refinery will drive efficiency/lower costs and help to meet anticipated future volume demand.

Bear

- Full recovery from CBP problems will take some time, but should reduce net debt/EBITDA (3.1x in FY17).
- Competition likely to increase with fermentation-based stevia alternatives scheduled for launch in 2018.
- Vertical integration adds complexity to the business.

Analysts

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